



Bob Inzer

Clerk of Circuit Court

Clerk of Courts ▪ Clerk of County Commission ▪ Auditor ▪ Treasurer ▪ Recorder ▪ Custodian of County Funds

January 12, 2004

The Honorable Jane Sauls, Chairman
Leon County Board of County Commissioners
300 South Monroe
Tallahassee, Florida

Dear Chairman Sauls:

In 1998, the voters of Florida approved Revision 7 to Article V of the Florida Constitution to provide that funding for the state court system would be from fees and charges. In June 2003, the Governor signed HB 113A implementing Revision 7, with implementation to occur beginning July 1, 2004. Historically, the County has been responsible for funding county court with the circuit court funded from fees and charges. On an annualized basis, Leon County is currently funding the clerk's court operations at \$5,479,817. Consistent with the constitutional amendment that Leon County will be relieved of, this funding responsibility beginning July 1, 2004.

The Legislature had a very difficult task. It is difficult to develop a fee-based system that is fair and equitable for both Dade County (population 2.2 million) and Liberty County (population 7,800). Services and the level of sophistication vary greatly from county to county based upon size and resource availability. Basing funding on population does not work well since the demand for court services is, to some extent, a function of demographic and socio-economic factors. For example, the volume of probate cases in Pasco County (Florida's oldest county as measured by age of its residents) is many times greater than what it is in Alachua County and here in Leon County (Florida's two youngest counties). Given the difficulty of this legislative task, it is hard to imagine that there will not be unforeseen problems in implementation.

The legislative process was made all the more difficult by the fact that even between counties there was no uniformity as to who provided what services. In some counties, jury management is provided by court administration; in others, by the Clerk. In some counties, pro se assistance is provided by the Clerk; in others, by court administration, and in others split between the two. The level of pro se assistance varies from extensive one-on-one help to the simple distribution of forms for filing. By any measure Revision 7 is a sweeping change that will redefine responsibilities between the Clerk, Court Administration, and the Board.

This memorandum is being provided to inform the Board of the process of implementation, its impact upon the county and to request the Board's assistance to insure a smooth transition. I am requesting that the County Administrator place this item on the agenda for the January 27, 2004 meeting and allow me to make a presentation to the Board of County Commissioners.

This memorandum is broken into three parts:

- ✓ Part 1 is to advise the County Commission of how HB 113A will provide funding for the Clerk. It will define the funding process, changes in responsibility, and potential risks. While the County Commission will soon be relieved of the responsibility for funding the Clerk's court functions (excepting facilities and technology), the County Commission should continue to be concerned about how effectively the Clerk functions. A poorly functioning Clerk's office will adversely affect court operations, the county jail, business activity and citizen judicial access. Historically, excellent support from the County Commission has resulted in the Judiciary, State Attorney, Public Defender, Clerk and Sheriff working well as a team and providing a high level of services. Each of these players should be attentive to making certain this level of teamwork remains in place.
- ✓ Part 2 of this agenda is to provide the County Commission a report of efficiency opportunities in the delivery of financial services. The Clerk's office has been very concerned about the level of funding that will be available after July 1, 2004. We have been evaluating each of our business functions to see where we can gain efficiency. An independent review was undertaken of the Finance function and the results of this review are included in Part 2.
- ✓ Part 3 is a discussion of a proposed Interlocal Agreement to fund financial services. This agreement was drafted by the County Attorney based upon my discussions and negotiations with the County Administrator and Budget Director. The Commission is being asked to approve and enter into this agreement with the Clerk of the Court.

PART 1: NEW FUNDING PROVISIONS

As I am certain you are aware, tremendous changes are being enacted in the entire judicial system, as a result of Article V. During a special session earlier this year the Legislature enacted HB 113A, which established many of the funding parameters and processes for the court system in general and the Clerk in particular. As we implement the new laws, the Clerk's Office is hopeful that we will be able to maintain the existing levels of resources and services in all areas of our operation.

I think it is important that the County Commission understand that (1) the new budget system is quite complex, (2) it is still being interpreted, (3) a common understanding has yet to emerge, and (4) it is subject to considerable change in the next legislative session. For example, the proposed "glitch bill" already has dozens of items in it! The original intent of Revision 7 initiative was to free the counties of financial responsibility for the state court system. However, the Board should be aware that a portion of the Clerk's operations will still be partially funded by the Board. The law currently states that the Board will continue to provide facilities, communications, technology and other support. Therefore, the Clerk will continue to have a line in the BCC budget for this support. We have been working with OMB to iron out procedures for determining and requesting this support.

With respect to the Clerk's court operations, these will now be funded from fees and charges. Pursuant to HB 113A, filing fees will go up significantly. Historically, the Legislature set court filing fees. HB 113A provided that each Clerk would set their own fees, up to a statutory limit. The bill required that all Clerks would, by October 1, 2003, declare the court fees they would charge beginning next July 1. All Clerks have declared they would set the fees at the maximum rate. The next paragraph explains why the process almost guaranteed this result.

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While Clerks set their fees, within statutory parameters, the legislation provides that the first \$57.50 of all fines, fees, service charges and costs collected in every court case be forwarded to the state for deposit in a Clerk of Courts Trust Fund. Additionally, one third of the remainder collected shall also be remitted to the State monthly and deposited into the Trust Fund. This trust fund is to be used to both fund clerk's operations and other state judicial functions.

A unique budget approval system has been created for the Clerk's statewide with a new approval entity called the Clerk of Courts Operations Conference. This Conference, consisting of eight clerks and one judge, will approve the court-related budgets for all Clerks around the state. Clerks will submit their budget to this committee, which will have approval authority. If sufficient monies are not available from filing fees and costs after remittance of those required to the Clerk of Courts Trust Fund, Clerk's may request that the Conference grant an appropriation from the Trust. If there is no appropriation from the trust approved, and absent a local appropriation from the Board, the Clerk will be forced to reduce services.

Because the Legislature meets before the Clerk's submit their budgets for FY04-05, there is a very real possibility that the Legislature may appropriate money from that trust fund to pay for other costs of the state court system before it is even known if there will be enough money to fund all of the Clerk's current operations. Projections for Leon County indicate that to maintain existing services and staffing we would have need for an appropriation from the trust fund approximately equal to the amount we are contributing to the Trust. By law we will not be submitting our budget to the Conference Committee until May and will not know the level of funding until just weeks before the budget becomes effective. Clearly, if there are inadequate resources in the Trust to fund all of the Clerk's budgetary demands either due to resource limitations, legislative actions, or the conference committee process, we will have limited time to react.

It is important to understand the underlying premise behind the current fee structure. For the most part, the civil court will be subsidizing funding for the criminal court. While access to civil court requires a filing fee, the opposite is not true for criminal court. The Clerk will be using the fines that are collected in criminal cases; however, these are estimated to be insufficient to cover all of the costs of the criminal court divisions.

ELASTICITY OF DEMAND ISSUE

One of the many concerns with this funding structure is the lack of a direct relationship between the workload and resources. Stated another way, we are concerned about the elasticity of demand in county civil and the inelasticity of costs in criminal court. Increasing county civil court costs to pay for criminal court may significantly reduce the number of civil cases and thereby our revenues, while the number and cost of criminal cases stays the same or increases. This is best demonstrated by the following example. Currently, it costs \$53.50 to file a county civil action seeking recovery of \$500. Next July this same case will cost \$150. We believe a significant number of businesses and individuals will choose not to file in county civil and instead try to collect through a non-judicial process. While our workload went down some in this example, it is not nearly as much as our revenues declined. Our concern is that county civil cases will decline in number because of the increased filing cost, with a corresponding decline in our revenue. At the same time, the criminal case workload may continue unabated or even increase. Therefore you can see that a significant

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decline in county civil court filings will have a serious impact on the funding necessary to operate the criminal courts.

BUDGET CYCLE ISSUE

As previously stated, the new budget calendar may create a serious problem for Clerks. The Clerks will submit a budget in May for a budgetary appropriation period beginning July through September. Another budget will be submitted for the regular fiscal year FY04-05 on August 1 with approval anticipated by September 1, 2004. The short lead-time between approval and implementation creates a significant problem if the approved budget varies from that submitted. We will only have a few weeks to adjust. Nearly 90% of our costs are employee related, and no significant expenditure adjustment can be made without reducing positions.

CASH FLOW ISSUE

Other potential problems include simple cash flow and cash management issues. In the past this cash flow need was met by advancing a percentage of the Board funds allocated to the Clerk according to the budget in the first month of the fiscal year. All businesses, both public and private, need working capital. However, beginning July 1, the Clerk's Office will have no money in our bank account to begin operating. If cash inflows are insufficient to match cash outflows, the Clerk's Office has no other resources available to meet our payroll and pay our bills.

BUDGET CAP ISSUE

Lastly, HB 113A limits the increase in Clerk's court related expenditures to 103% of the prior year actual expenditures. For the past several years we have seen health care cost increasing at a double-digit rate. FRS funding has been increasing as a percentage of payroll as the state returns funding to normal cost. These two factors alone could consume more than the 3% budgetary increase allowing nothing for salary adjustments, inflation or increases in staff to match increased workload. If this section of the bill is not amended, it will be very difficult to provide any salary increases for employees. Indeed, reductions in other employee costs may be required to meet this budget cap.

NEW RESPONSIBILITIES

HB 113A charges the Clerk with several new responsibilities. The Clerk will now be completely responsible for pro se assistance. Historically, this responsibility was split between our office and the Court Administrator. The Court Administrator currently allocates 2.5 employees to staff the Family Law Assistance Program, which provides pro se assistance for family law cases.

The Clerk will also assume responsibility for determining indigence and handling the processing and payment by indigents. Up until now, if you were determined indigent, filing fees were waved. In the future, filing fees will be deferred, not waived, and the Clerk will be expected to collect these fees over time. This change requires the establishment of a partial payment and collection system for all court fines and fees. While the Leon County Clerk was one of the leaders in the state a few years ago in establishing such a system in the criminal courts area (which resulted in

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hundreds of thousands of dollars of additional revenue for the Board each year), the new law provides a much expanded system allowing anyone in any court area to use a partial payment system. The costs for operating this system and performing collection services may be significant. The Clerk will be expected to provide all of these new or increased services, pro se assistance, indigency determination and a partial payments and collections program, within the 103% budgetary cap.

BCC CONCERNS

Why are these issues important to the BCC? One major concern is that funding shortfalls resulting in decreased staffing will slow down the court processes. This can result in increased jail costs if cases cannot be moved through the court system as quickly as before. Clerks around the state share these concerns and some are evaluating alternatives including moving to establish agreements with their respective commissions to escrow or reserve funds to deal with a transition period. We believe that this transition period must not exceed 15 months. We are aware that the BCC has created such a fund at the request of the Chief Judge, and are requesting that its size be increased, using the recently returned excess fees, to a balance of \$1 million. The reserve would be held and controlled by the BCC and thereby subject to its future appropriation. Funding in the long run will have to come from fees and charges, and this request is made to allow for a smooth transition. If implementation of HB 113A is as difficult as we anticipate, this reserve will provide resources to soften of the blow and minimize any turmoil in the entire judicial system. We believe these risks are real and significant. We believe that, in spite of our best efforts to prepare, the transitions required by Revision 7 are likely to be difficult. If revenues and demand do not match up as anticipated, absent calling a special session the Legislature will not be in a position to act for nine months. We believe it is practical and pragmatic to plan in advance for this and reserve a sufficient amount of money to handle the situation in the best interests of all the citizens of Leon County.

PART 2: FINANCIAL SERVICES

It is our goal to be the best Finance Office in the state. We recognize that this goal must be measured in terms of quality of our work product, cost efficiency and customer service. To accomplish this goal, we can not be complacent and accept historic practices as the best, but must challenge ourselves by constantly reviewing our financial processes and making changes when feasible. We also recognize that we must constantly evaluate the tools and training of our personnel as we seek and evaluate innovative ways to implement improvements.

All of the Clerk's Departments have been undertaking a process of critical review. Some of the court divisions have created multidisciplinary teams to review their business processes. The Clerk Information Systems Department retained an outside firm to assist them in their evaluation. The Finance Department elected to use an innovative process we call a Peer Review. In July the Clerk asked six seasoned government financial professionals with a combined experience of 143 years to visit Leon County and review the Finance Department operations. The participants were: the recently retired Director of Finance, City of Fort Lauderdale; Comptroller, City of Orlando; Finance Director, St. Lucie County; Financial Services Director, Osceola County; Chief Deputy Comptroller, Orange County; and Director of Accounting, Broward County. At a minimum, they were charged with specifically evaluating the following areas:

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- Policies and Procedures
- Adequacy of Financial Information Systems
- Internal Controls
- Service Delivery and Support of County/Clerk Functions
- Staffing (Adequacy, Training And Compensation)
- Department Structure

The Peer Review Team followed a carefully structured process. Each participant was provided a significant amount of documentation on the Finance Department prior to their site visit. The overall committee was broken down into three two-member teams. The scope of the review was then spread among these three teams. Each team made an onsite visit and conducted an intense interview process with key personnel. The entire committee reassembled in Orlando, Florida to discuss and agree on the final recommendations.

The final report has just been received and is currently under review. In the coming months, we will be evaluating every recommendation, discussing with the Peer Review Team their basis for the recommendation and implementing recommendations where feasible. We recognize that the Board and staff of the Board are the Finance Department's primary customers and we want you to know the efforts we are undertaking to improve services. We also recognize that the Board funds over two-thirds of the finance budget and should understand our efforts to control costs. Therefore, we have attached a copy of the report for your review.

While most of the recommendations are technical or managerial, I would like to bring one specific recommendation to your attention because it deals with the structure of the office and to some extent how services are delivered. Historically, the accounting department was actually two separate units operating under one roof. The general accounting functions for functions for the Clerk and Board were separated, with different employees committed to Clerk Accounting and Board Accounting. This structure was created to provide clear lines for funding, not for efficiency or cost-effectiveness. Interestingly, this structure is relatively common in most mid-size counties and some large counties. The committee has recommended that we restructure the office and eliminate this artificial separation of functions. A structure that allows us to allocate staff based upon current work demands will improve our efficiency and allow us to continue to meet the demand for enhanced financial services without increasing staff.

We have operated the Clerk's Finance Department over the past three budget cycles without any increases in staffing. We believe that through changes in organizational structure, we can continue for the next three years to provide enhanced services without an increase in staffing. As the financial office for the County, the Clerk's office is mindful of its fiscal responsibilities to the taxpayers of Leon County to deliver high quality services and contain costs.

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PART 3: INTERLOCAL AGREEMENT

The funding of the Clerks' office will change dramatically beginning next July. Previously our funding was very predictable with the 42% as a direct Board appropriation and an additional 26% being funded by the Board based upon billings and charges. Next July this will change radically with only 20% being funded by the Board directly and an additional 5% of our budget being from billings to the Board for services.

While the fee schedule set by Clerk's should be adequate to fund Clerk operations, there is concern that the state will appropriate a portion of the trust fund and not leave sufficient funds to meet the budgetary requests made by Clerks. In that regard, we are actively searching for every possible improvement in efficiency. The peer review was just one such effort. We have initiated re-engineering reviews in various court divisions and are systematically reviewing every operation.

As your chief financial officer, we accept our responsibility to prudently spend taxpayer dollars. In addition to not requesting a single new position in the Finance Department, we have actually reduced positions in the courts. Similarly, we are pleased to be able to return to the County Commission the following year end funds:

FISCAL YEAR	EXCESS FEES RETURNED TO BOARD	UNSPENT FEES ¹	TOTAL
2001	\$ 208,544	\$ 241,154	\$ 449,648
2002	\$ 1,001,634	\$ 181,986	\$ 1,183,620
2003	\$ 1,351,429	\$ 55,836	\$ 1,407,265
			\$ 2,214,583

EMPLOYEE COMPENSATION CONCERNS

We have two concerns regarding salary and benefits. One is that we will not be able to maintain benefits and salary adjustments comparable to those of the Board. It has been and will continue to be our desire to work with the Board and maintain policies, benefits and salary adjustments commensurate with the Board. However, with a smaller and smaller portion of our budget funded by the Board and the potential inability to control our budget, this may not be possible.

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- 1 In addition to direct funding various Clerk functions, the Board also appropriates funds for charges and billings for services. In the past three years, the Clerk has guaranteed excess fees to be an amount certain. This guarantee was contingent upon the Clerk receiving all of the revenues anticipated in the original budget. Any "under billing" to the Board is considered a savings and thereby increases the County's General Fund Balance by an amount greater than anticipated.

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Second, the Clerk's Office does not want to be put in the awkward position of having two employees working side by side, one working on Board Accounting the other Clerk Accounting, and be compensating them differently. No manager wants to be put into the position of telling employees that there are dollars in the budget from the Board to fund a raise, but a raise cannot be given because there is no money for the other employees in the office. Both of these situations create a serious morale problem.

The recommended solution is to enter into an Interlocal Agreement whereby the Board funds us a gross amount. We are proposing to enter into a three year agreement whereby we will continue to provide you existing financial services with existing personnel. Absent a significant demand for increased services, we will not request any new employees for the next three fiscal years. We are asking you to adjust the gross amount of the budget on an annual basis by a dollar amount calculated on increases in salaries and benefits you provide your employees. It will be the Clerk's responsibility to provide for normal increases in demand for services because of population growth and other similar factors through efficiency gains.

This agreement will provide additional flexibility to make changes in organizational structure and provide certainty with respect to funding for both the Board and the Clerk.

RECOMMENDATIONS

In order to assure a smooth transition, I am requesting that the Board adopt the following two actions.

1. Approve the Interlocal Agreement between the Clerk of the Circuit Court and Leon County and authorize the Chairman to execute the agreement.
2. Approve setting aside sufficient excess fees from the Clerk to increase the Judicial Reserve Fund to \$1 million.

I look forward to answering any questions you may have before the meeting and addressing the Commission on January 27, 2004. This is an important issue for the county and for our community and I look forward to beginning a dialogue with the Board. Please feel free to call me if you have any questions.

Sincerely,



Bob Inzer
Clerk of the Circuit Court

BI/cam
Attachments

1. Finance Department Peer Review
2. Interlocal Agreement between the Clerk of the Circuit Court and Leon County

cc: County Commissioners
Parvez Alam, County Administrator
Alan Rosenzweig, OMB Director

**CLERK OF THE CIRCUIT COURT
LEON COUNTY FLORIDA
FINANCE DEPARTMENT
PEER REVIEW
REPORT**

October 23, 2003

Introduction:

The Clerk of the Circuit Court and Director of Finance, Leon County Florida decided to embark on a unique approach to a look at the Finance function of the County. Although both felt that they had an efficient and effective financial operation, they saw great value in an external independent review. Why not invite other local government finance professionals to appraise the department? Accordingly, the Peer Review Project was conceived. A committee of six City and County finance officials would be formed and divided into three subcommittees working in pairs, each with a City and County person to bring in the two perspectives.

The Committee's Charge:

Assist in a comprehensive review of the Finance Department and make recommendations that could result in greater efficiency or other improvement.

The Committee would explore but not be limited to the following areas:

- Policies and Procedures
- Adequacy of Financial Information Systems
- Internal Controls
- Service Delivery and support of county/clerk functions
- Staffing; adequacy, training, and compensation
- Department structure

Process:

The following individuals enthusiastically agreed to participate in this peer review project and formed the project team (the Committee):

- Damon R. Adams, CGFO, CPA recently retired Director of Finance City of Fort Lauderdale Florida
- Robert R. Garner, CPA, CGFO, CMA, Comptroller, City of Orlando, Florida
- Christann Hartley, CPA, CGFM, Finance Director, St. Lucie County Florida, Clerk of the Circuit Court
- Thomas P. Klinker, CGFO, CPA, Financial Services Director, Osceola County Florida Board of County Commissioners
- Jim Moye, CGFO, CPA Chief Deputy Comptroller, Orange County Florida, Board of County Commissioners
- John Pryor, CPA, Director of Accounting Broward County Florida, Board of County Commissioners

This group of experienced local government finance officials has a combined 143 years working knowledge of local government financial operations, policies and procedures.

Various resources and documents were obtained or made available to the Committee to assist in its evaluation. These are enumerated in the appendix. The Committee made an onsite visit to the Finance Department and conducted an intense interview process with key personnel. Each member then made individual recommendations as a result of their review. The recommendations and observations were consolidated and reviewed by the entire group. A Committee meeting was conducted in Orlando, Florida to discuss and agree on recommendations to be made to the Clerk of the Circuit Court and Director of Finance. This report is the result of these efforts.

It should be noted that this was not an audit or an examination and was limited in scope to a review process based upon the information obtained and the knowledge and experience of the Committee members.

Recommendations:

The Committee would first like to point out that it was pleasure working with the finance staff. Much appreciation is extended to Bill Bogan for the execution of his role as contact for the Finance Department. Total cooperation was received from all involved. After completing the peer review project the Committee's conclusion is that the department is highly professional, well run and interested in improving work processes where warranted. The operation would be the envy of many local government finance departments.

The following recommendations should be considered as suggestions for improvement and may accepted or rejected as deemed appropriate. No attempt was made to prioritize the recommendations and there is no significance as to the order in which they appear.

Policies and Procedures

Recommendation 1) - Policy and Procedures Manual

Although the existence of a policies and procedures manual is a plus, it needs attention. Many procedures are not being followed and some staff questioned about the manual did not have reference copies available for their use. Other staff in some cases did not know of its existence. There is too much detail. Individual names are included and expired dates are evident. The level of detail and volume discourages users from referring to and reading the manual. Too much detail also causes more need for change over time, thereby bringing it out of date more rapidly. A less detailed, more generic manual would be much more useful.

The manual should clearly differentiate between a policy and procedure. The *policy* sets forth the standard with *procedures* being the process for carrying them out. Many designated "policies" are actually procedures.

Certain policies appear to be inadequate. Some exist on the Board and Clerk website, but need to be clearly stated in one place and be expanded (i.e. budget policies, proper payment request policy, etc.).

Assurances should be evident that policies are being followed. For example, the policy states that the Finance Director reviews all Clerk checks written, however, there was some uncertainty that this review procedure was always occurring. In order to ensure adequate resources to accomplish this task, another staff person at a lower organizational level that does not have check development opportunities could perform this procedure. As a part of the manual rewrite effort it is recommended that all staff review the Policy & Procedures Manual and indicate which areas are not being followed.

Response: We agree that the policy manual should be separate from the procedure manual. This is a massive undertaking in that there are one hundred eight (108) policies and procedures. Staff in finance will revise the manual to reflect such changes. A goal of revising twenty-five (25) per quarter has been established with a target completion date of February 2005.

The current manual is located on a shared drive available to all employees. Time and events may have caused some employees to have forgotten its location while new employees may not have been informed that the manual is available to them electronically. Finance management staff will provide immediate notification to all finance staff to insure that all employees within the department are aware that this is available to them.

The Peer Review Team has recommended that all policies relating to financial matters be located in one place. While we may agree with this recommendation we are faced with the challenge of doing so because some of the policies that we enforce are developed by staff in another agency. We will post all financial policies on Finweb (Clerks Finance webpage), irrespective of the agency creating such policy and add new policies as they are developed. To the extent possible we will look to place all policies in one location by February 2005. We will develop a comprehensive list of policies and draft those within our purview of responsibility and encourage Board staff to develop those that are their responsibility.

Recommendation 2) – Florida Statutes

There seemed to be a hesitation of staff for the responsibility of knowing Florida Statutes that are applicable to the Finance Department. While interpretation of the statutes may require legal assistance from time to time, a working knowledge of the appropriate statutes, by most of the staff, would be in the best interest of the Department. The FICPA handbook on Constitutional Officer Compliance is a good starting point and reference handbook. Even though it is somewhat outdated, it is still useful.

Response: We concur that an understanding of the statutory responsibilities/authority that we operate under is critically important. While we believe that most of the managerial employees in Finance are knowledgeable of the pertinent Florida Statutes, we will push education and training on the applicable laws further down in the organization.

We will contact other Clerk's offices to determine the extent and scope of such training. This is a matter that will be ongoing in that we will have employee turnover along with law changes from time to time.

Recommendation 3) – Unnecessary procedures

Counties are required by state statutes to have their invoices approved by the County Commission. Leon, like other counties, faithfully carries out this function. This procedure may have been useful in the distant past but modern disbursement systems such as the one in place in Leon provide strong internal controls over disbursements without this step. The Clerk may wish to take the leadership in eliminating this, and other outdated and unnecessary laws, through introduction into the legislative process. It is noted that the Director of Finance is the current chair of the legislative committee of the Florida Government Finance Officers Association. The assistance of the FGFOA would be invaluable in this effort.

Response: We concur that many of the statutory limitations are antiquated and reduce efficiency without improving internal controls. Leon and other counties have often developed "work around" solutions to address statutory requirements that are inconsistent with existing financial policies and practices. We will begin working with the Board, FACC and FGFOA for the upcoming legislative session to propose changes that improve efficiencies.

Recommendation 4) - Debt covenant compliance

It was not clear as to whether debt instrument covenants had been extracted from debt documents and monitored periodically, and whether sufficient attention was given to debt compliance. The Committee recommends this function be clearly identified and be a responsibility of the Cash Management section. The Committee understands that a debt policy currently under development will specifically address this recommendation. Calculations and reports for federal arbitrage regulations were asserted to be completed by outside specialists from Ernst & Young. This appears to be a good control by having competent expertise performing these complex calculations on a regular basis.

Response: The Cash Management Section has the responsibility to monitor Debt Compliance and issues relating to debt. . Currently we are without a manager for this section. In filling this position we will seek an individual with the expertise and sophistication to insure compliance. We agree that this is an area where compliance is critically important. The Finance Director will insure that this responsibility is clear to employees in Cash Management.

Adequacy of Financial Information Systems

Recommendation 1) – Financial System

While the Banner system appears to be a solid financial system it appears to come up short in the area of user friendliness. Use of customized reports and queries places a great deal of dependency on the designer. Upgrades may not be compatible with queries. It is recommended that all regular users be trained to a higher degree of competency in system use. The Accounts Payable process should be consistent between Board and Clerk to have overlap and cross training. The process should move toward more automation.

Response: We agree that the financial system meets our needs. Currently, Banner-training classes are offered and advertised to all Banner users every month. We will survey existing users to determine their level of competency and desire for more advanced training by April 2004. If it determined that there is a need and demand for such a program we will seek to implement by July 2004. In regards to queries, we are looking to automate as many as possible.

Recommendation 2) - Purchasing Card processing

This is yet another area where the Board and Clerk use different processes. Having two different purchasing card vendors, Wachovia for the Clerk and Bank of America for the Board, provides additional administrative burdens on an already small staff. While both areas get a 40 basis point rebate from the bank, the different banks necessitate different systems, methods and processes. The Board's volume is naturally greater at about \$28,000 per week compared to the Clerk's \$6,000. It is recommended that the Clerk pursue combining purchasing card programs with just one provider in connection with the next banking services bid.

To facilitate processing, a default expenditure code should be used rather than the labor intensive procedure involved in using a multiplicity of codes. Of course, charges to other codes could be handled on an exception basis.

If the consolidation of card systems appears to require an extended length of time it is recommended that the Clerk consider a move to Wachovia's newer Web based version that is accessible by an Internet browser rather than continue with its PC In-vision software.

The Clerk is responsible for paying these invoices by established dates. From time to time supporting backup paperwork for purchases from Board staff may not be furnished for required timely payment. Accordingly, it is recommended that the Clerk retain the ability to terminate purchase cards of Board staff for noncompliance with program guidelines and procedures.

Cash Management staff performs purchase cards payment reviews when it would be more appropriate for supervision to come from an accounting manager.

Response: We will combine the Purchasing Card programs with the implementation of a new banking services agreement. An RFP will be issued in the Spring of 2004. In regards to one expenditure code for all cards, we believe this will not be of benefit to the County. Currently, one default code exists for each division/department. This is an efficient process because the information is automated. It also gives us a greater level of accountability.

Recommendation 2) - Purchasing Card processing (continued)

The Finance Department staff is reviewing the controls for purchasing cards and will be making a recommendation to the Clerk by April 1, 2004. The decision to allow Board Purchasing to have the authority to establish and to cancel employee P-Cards was done with functionality in mind. We will work with Board staff to insure that employees that are not complying with the policies have their card cancelled.

Recommendation 3) - Automation

Certain timekeeping functions are done by hand and are input into the payroll system. Efficiency can be gained through automated time collection. There are many good automated timekeeping systems which could be interface with the payroll system. Staff has indicated that a new project will be initiated with Stromberg Software for automation of timekeeping. The Committee applauds this initiative.

Response: A draft RFP soliciting the service from a software provider will be taken to the Board in January 2004 for issuance.

Recommendation 4) - Special assessments

More than one staff member expressed considerable concern as to the adequacy of the Paving assessments system. Apparently the volume has grown beyond the capability of the current data base. This should be quickly addressed before it becomes an unmanageable situation. To attend to this concern the Public Works Department is already in the process of procuring such a system.

Response: Finance staff worked with a student intern during November and December to insure special assessments are being accounted for properly. Finance staff is working with Public Works staff to acquire a program that will accurately account for these liens in an ongoing basis.

Internal Controls

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Recommendation 1) – Invoice audit procedures

The payment process is decentralized. While payment authorization appeared to be adequate, it was difficult for the Committee to determine if all payment documentation for the Board receives the appropriate Department staff review. Invoice audit procedures could be more specific and detailed.

Response: The controls over payment are divided between Board staff and the Finance Department. Finance staff is currently the final check in our system before a payment is made. We will work with Board staff no later than July 2004 to conduct a comprehensive review of the payment process to insure that adequate controls exist and employees are trained on these controls.

Recommendation 2) – Cash collection points and review of procedures

Utilizing armored car pick-ups for each Clerk division has its benefits and drawbacks. Having the fewest number of persons involved with cash from the point of payment to the bank is the best system, although it may not be the most cost effective. Each separate pick-up location by armored service typically receives an additional billing charge. Having all collection points in the courthouse bring deposits to Finance for a single pick-up would be better if deposits were already prepared. Locked bank bags ready for pick-up would avoid the necessity of additional cash and check handling.

Although time constraints did not permit visits to cash collection locations, it is suggested that notices be posted at cash collection points advising customers that receipts must be given or customers should contact management.

To assure adequate control over collections the Cash Management section should complete a detailed review of departmental cash receipts procedures.

Response: Previously, visitors in the Courthouse had to go through security only if they were going into a courtroom. It was deemed unsafe for county staff to be transporting money around the courthouse. Currently, all citizens

Recommendation 2) – Cash collection points and review of procedures
(continued)

entering the courthouse for business must go through a security screening. As a result, we agree with the Peer Review Team that it would be beneficial to have one stop for armored car pick-up in the courthouse. We will change this procedure by February 27, 2004. We also believe that there is value in posting a sign concerning a receipt and having a periodic review in cash controls. We will post these signs by February 27, 2004.

Recommendation 3) – Verification of receipts

Having Finance provide pre-numbered and uniquely printed receipts for use at all locations (both in the Courthouse and other remote locations in Board offices) offers a good control. Verification by Clerk staff of blank receipts should be performed periodically, perhaps once each year.

Response: Cash management staff will be tasked with evaluating the cost and benefits of performing this function. Such review shall be complete by September 2004.

Recommendation 4) – Information technology audits

While there are two staff persons in the Internal Audit function, there are no Information Technology auditors on board. Providing this experience in a smaller operation would be perhaps inefficient. However, technology processes are vast and deep in the organization and will continue to increase. It would be prudent to obtain these services, even through an outside firm on a contract basis and ensure that control over systems is as tight as it can be. Similar operations with less staff offer fewer opportunities for separation of duties, a key internal control feature. By necessity the Information Systems Coordinator must have extensive system access capabilities in order to achieve successful operations; however, this opens up systems with little separation of duties. The only other efficient way to counter this is to have independent review and monitoring, even if on a periodic basis.

Response: We agree with this recommendation. In fact, we have requested this on past occasions. Last year, the Clerk's office contracted with an outside technology assessment firm for a review of its operation.

*Forthcoming from those recommendations was the need for more
Recommendation 4) – Information technology audits (continued)*

documentation of programs and systems. The Clerk subsequently contracted for assistance in the development of such policies. Given our increasing dependency on technology, ongoing services maybe necessary. We will have discussions with our external auditors to see if they can perform this function. If not we will explore other options.

Recommendation 5) – Office security

Office security appears to be tight. The controlled access to the courthouse with metal detectors and scanners provides good weapons control. A receptionist entry area provides adequate screening to those entering Finance. Cameras in the Finance Office offer additional security although they may not be necessary.

Response: This again ties with our previous discussion about security issues. Under the current security arrangements we agree that the cameras should be removed. This will be put into effect by February 2004.

Recommendation 6) – Positive pay

Check stock is pre-numbered and logged which is a good control. The positive payment system with the bank was purported to be handled by Cash Management. However, staff in that section indicated no involvement in performing that duty. For positive pay to work properly, it must be monitored daily. It is imperative that this function be clearly assigned and performed on a daily basis.

Response: Inadequate attention has been devoted to this responsibility in the past. The Cash Management staff will be tasked with performing this function and will be monitored by senior management to insure compliance. As previously stated, we are currently without a manager in this section. In filling this position, we will seek to hire an individual with expertise in cash management, debt administration and portfolio management.

Recommendation 7) – Vendor file control

Recommendation 7) – Vendor file control (continued)

Although vendor establishment on the financial system can be accomplished with one person's effort without electronic or paper authorization the authorized personnel are not involved further in the payment process. However, an audit trail report needs to be generated from the system and reviewed by an employee independent of the procedure, since vendors can be established, checks written and vendors deleted according to staff.

Response: We believe this to be a misunderstanding on the part of the review team. Vendors cannot be deleted. An audit trail remains within the system. We will investigate the availability of a report for changes to existing vendors.

Recommendation 8) – Payment voucher reviews

A person that reviews payment vouchers also initiates payments and can also write checks. There needs to be some segregation of duties with these procedures.

A list of authorized employees that have payment voucher approval is established and is used by account payable clerks resulting in a good control. Initials are accepted methods of signature. With large organizations (the Board) it is recommended that full signatures be obtained for all approvals. Full signatures instill more perceived responsibility for the signor than do initials. In addition, a full signature identification is a better method for the reviewing Clerk staff. Two signatures are not always required for payments. As far as it is practical one signature could be obtained authorizing the purchase and another different signature could be obtained acknowledging receipt of the goods or services. In any event, there should be clear documentary evidence that goods and services are properly delivered before payment is made.

Response: We have addressed the issue in paragraph one by employing alternative procedures. Each department/division is responsible for actively monitoring expenditures in their accounts. They are tasked with contacting the finance department if any charge is considered an error. We will look for ways to encourage departments/divisions to actively monitor their accounts.

Since a limited number of individuals are authorized to approve invoices, do not feel that requiring full and complete signatures would provide any additional controls. Invoices are currently reviewed for receipt of items prior to payment.

Recommendation 9) – Cell phone accounts

It was noted that not all cell phone accounts receive phone call detail on invoices. For sufficient information to determine public purpose for cell phone use, call detail is a must, even if there is an extra charge for this service. The Committee realizes that in the case of cell phone reimbursements based solely on fixed monthly charges, detailed bills may not be required.

Response: We are currently encouraging individuals to receive an allowance towards their cell phone usage rather than pay the cell phones directly.

Recommendation 10) – Returned checks

Returned vendor checks go to an Accounting Specialist III who also has the authority to reissue the checks in another vendor name. These two procedures should be segregated to eliminate the possibility of fraudulent paying of fictitious vendors without detection. Changing the payee name by reissuing to another vendor name should be a two-person process.

Response: We agree and will review the security authority of the Accounting Specialist III and ensure that access to the vendor files is restricted. This will be completed by January 31, 2004.

Recommendation 11) – Investment control

The Investment Committee consists of five members, an adequate size with a proper mix of management and outside volunteers. The Investment Policy appeared to be fine. When a situation outside the parameters of the policy arises, acknowledgement of the exception is made by the Clerk in writing.

Separate investment securities are purchased by Voyager, as agent for the Clerk, for approximately \$65 million of the portfolio. Cash Management staff was not aware that Voyager had signed any acknowledgement

statement of the Investment Policy of the Clerk, Such a statement would be good as evidence that the investment agent was responsible for purchasing suitable investments in accordance with the Investment Policy.

Recommendation 11) – Investment control (continued)

Response: We agree that acknowledgement by our investment advisor of our policy is an appropriate control. We involved our investment advisor in the development of the policy and regularly review for compliance. We will review our documentation and if the investment manager has not signed a statement acknowledging the County's investment, we will require the investment advisor to do so. This will be completed upon hiring a Cash Manager.

Recommendation 12) – Identification of bank accounts

It is recommended that local banks be checked for rogue accounts that might have been established by County employees using the county federal tax identification number. This procedure was done in Orange County and several accounts were found at banks and credit unions.

One account at Tallahassee State Bank exists with little knowledge by the Cash Manager. It is estimated to have a balance of approximately \$150,000 and was opened for grant purposes. It has been reported to the Committee that staff has been pursuing the bringing of this account in to the group of accounts at Wachovia or otherwise controlled by staff. The Committee applauds this effort.

Response: We agree this is a procedure that would derive benefit when performed periodically. We will perform an account verification by January 2004 and periodically thereafter.

Service Delivery and Support of County/Clerk Functions

Recommendation 1) – Management letter follow-up

It is suggested that one person be responsible for following up on management letter comments. A report should be made to the Director of Finance at least quarterly to assure that comments are being addressed and are not repeated.

Recommendation 2) – Customer satisfaction surveys

Response: We agree that staff will be tasked with following up on management letters. Assignment of a specific individual will be completed upon reorganization and hiring of additional staff.

The department should implement customer satisfaction surveys to assess how its performance is perceived (e.g. vendors, Board departments, Supervisor of Elections, etc.).

Response: We agree that additional survey information should be obtained from County and Clerk customers. A draft survey is being prepared and will be submitted to the SMT by April 2004. We are concerned about our customer service and have previously solicited feedback by providing for comment on the Finance Web site.

Recommendation 3) – Customer convenience

Receipts that come through Court-View are going toward credit cards and escrow accounts for frequent customers. Wherever feasible it is recommended that the department continue pursuing escrow and credit cards for customer convenience.

Response: We will pass this recommendation on to the Courts Director.

Recommendation 4) – Reassignment of duties

Although the logic is apparent in assigning Court System duties to the information processing section of the Clerk of the Court office the workload and nature of the financial systems work of this section is seen by the Committee as not compatible. The Committee would encourage the Clerk to reassign Court System responsibilities since this does not appear to be a proper fit with other information processing duties.

Response: We agree with the recommendation. We will look to work with Clerk CIS staff to reassign the court system responsibilities by Spring 2004.

Recommendation 4) – Financial Reporting

Recommendation 4) – Financial Reporting (continued)

The Clerk prepares and publishes the Comprehensive Annual Financial Report (CAFR) for the County for each fiscal year. Due to the length of the “Notes to the Financial Statements” it might assist the reader in locating specific notes if an index was included at the beginning of the note section.

Response: We will discuss with our external auditors the feasibility of implementing this recommendation. If it is feasible, we will implement this recommendation by issuance of the 2003 CAFR.

Staffing; Adequacy, Training, and Compensation

Recommendation 1) – Salary levels

Salaries appear to be in line with other entities at the lower levels. Turnover is not an apparent problem and competitive employment opportunities at the state government level have been curtailed by the actions of the Governor. At the upper management level it was noted that the compensation rates are somewhat lower than comparable positions in other local governments. Some adjustments could be made at the upper management level. An independent review by an H.R. specialist should add credibility to this suggestion. The Committee understands that some adjustments have already been made since reviewing these salary levels.

Response: No comment.

Recommendation 2) – Efficiency through cross training

It appears that some efficiency could be improved through cross training and utilization of accounting professionals of the Clerk and Board sections. There are peak periods when one section may be busier than the other. In these situations “borrowing” staff from another section that have been at least minimally cross trained would result in better utilization of time. The extent of this recommendation should be considered in relation to action taken on department restructuring.

There were some separation of duties between staff paying bills for the Clerk and staff paying bills for the Board. In a smaller organization it would appear to be more efficient if all payables staff handled both organizations

together. It was stated that work available for payables clerks was, at times, insufficient to keep them busy. This could be a good opportunity for cross training in other functions to provide depth of staff capabilities for back-up purposes.

Response: Our current organizational structure has, to some extent, been driven by funding and the desire to separate board and clerk functions. A proposal is going to the Board to provide greater latitude in the finance organizational structure by contracting for services and not funding positions. Assuming Board approval of the Interlocal agreement, we will begin eliminating designated Board and Clerk positions and structuring the office solely based upon efficiency, service delivery and internal control needs.

Recommendation 3) – Grant Accounting coordination

Even though the County has a grant coordinator, a central grant accounting person would enhance this function in the area of timely and accurate reporting of grant programs. The grant area was highlighted in the latest independent auditors' management letter.

Response: The management letter comments dealt with grant operations and eligibility, not grant accounting. It is our belief that Grant reporting is a responsibility of the departmental/division administering the grant and not a responsibility of the finance department. We will discuss this with the County Administrator to insure that he concurs with this assignment of responsibility. We do believe we have a responsibility to provide assistance and training and will continue to provide these services.

Recommendation 4) – Develop performance measures

Performance measures have become highly visible in local government and have been developed and refined in the past several years. While administrative function measures can be somewhat more difficult to develop than operational departments there are processes that could be measured. The department should develop a handful of meaningful performance measures to evaluate staff productivity. These could also assist in any workload reallocation decisions.

Response: We agree that performance measures are a meaningful part of professional management. Identifying appropriate and meaningful performance measures are difficult for service/control organizations. Concurrent with the development and implementation of the new organizational structure we will develop meaningful performance standards and measurements.

Department Structure

Recommendation 1) – Modest Revision to structure

Throughout the list of recommendations a theme of consolidation of duties can be seen. To the extent practical a consolidation of the two accounting sections (Board and Clerk) could promote separation of duties (payables, JV's, billings) and result in more productivity. Therefore the Committee recommends a modest restructuring of the sections.

Below is a narrative providing the transition from the current structure to the suggested organization. A revised organization chart is attached.

- Move the PT/OPS File Clerk under the direction of the Office Manager as the duties of the position are file related, scanning, etc.
- Combine all accounts payable related positions under the direction of an Accounts Payable Supervisor. Since the Board and Clerk payables are inherently different from an accounting perspective the person currently assigned to the Clerk's payables would provide the specialization needed in Clerk's operations, etc.
- The Accounts Payable Supervisor could report either to the Board Accounting Supervisor, or the Assistant Finance Director.
- Move the Bookkeeper/Accountants to the direction of one Lead Accountant reporting to the Assistant Finance Director.
- Move Accounting Specialist III under the direction of the Supervisor of Treasury Management as the duties of the position are Cash related, although specific to the Clerk's office.

- Records Coordinator duties could be better defined to enable the position to devote full time to this important function by relief of other administrative assignments. The records responsibilities should remain under the supervision of the Office Manager.
- The vacant Accountant II position under the direction of the Supervisor of Treasury Management could be utilized in other areas of the office.
- Reassign the current position of Office Manager to the Cash Management Division since the primary duties are Cash Management related.

Response: We agree that a revision to the department structure is warranted. As previously stated this will be contingent upon the approval of the Interlocal Agreement with the Board. A proposal to reorganize the finance department will be presented to the Clerk's Senior Management Team in January 2004.

Conclusion:

It is the sincere desire of the Committee that the observations, recommendations and suggestions in this report provide useful input to the Clerk, Director of Finance and staff. This peer review process was most enjoyable by all members of the Committee and each feels that the experience was of mutual benefit to everyone.

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Agreement

This Agreement is made and entered into this _____ day of _____, 2003 by and between Leon County, Florida, a political subdivision of the State of Florida ("County") and the Leon County Clerk of the Circuit Court ("Clerk").

WHEREAS, with the implementation of Revision 7 to Article V of the Constitution of the State of Florida has fundamentally changed financial relationship between the Clerk and the County as it relates to the funding of certain court related activities; and

WHEREAS, the Clerk desires the greatest financial flexibility in order to provide services to the County and the Public; and

WHEREAS, through an agreement both the Clerk and the County can have financial assurances that provide annual budget certainty to both entities, and

WHEREAS, the County, by and through its Board of County Commissioners, and the Clerk desire to enter into an agreement for the provision of Finance and Internal Auditing Services; and

WHEREAS, the parties are desirous of reducing their intention to writing;

NOW, THEREFORE, in consideration of the premises and mutual covenants contained herein, the parties to this Agreement do agree as follows:

1. **Services:** The Clerk will continue to provide the full range of financial management and other services, including but not limited to the following: accounting, financial reporting, Board secretary, insurance processing, treasury management, payroll, billing, auditing, accounts receivable and general financial support. The services listed are not intended to be all inclusive, but rather illustrative.
2. **Expansion of Services:** In the event the County materially changes the scope of services requested of the Clerk and amendment to this agreement will be executed.
3. **Term:** This agreement will commence on October 1, 2004 and will extended for 3 years if no notice given by either party.
4. **Termination:** This agreement can be terminated by either party with written notice 60 days before departmental budgets are due to the Office of Management and Budget during any year, effective at the end of the then current fiscal year.
5. **Payment and Support:** The County agrees to fund and support the Clerk as follows:
 - a. \$821,388 adjusted by the salary percentage increase for the county funds for general employees

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- b. \$250,419 adjusted by the average benefit change the county funds for general employees
 - c. \$178,429 for operating expenditures; no adjustment to be applied for the term of the agreement
 - d. One time funding will be provided by the Board for 72% of the total cost for significant sick and annual leave payments of accounting employees.
 - e. New positions and associated funding will not be requested by the Clerk for the term of the agreement except to fulfill new responsibilities as requested by the Board. This would be addressed in section 2 above.
 - f. The County will continue to be responsible for Finance hardware/software purchases, maintenance fees and upgrades. This includes both the financial information system and other specialized software.
 - g. The County will continue to be responsible for all facilities and improvements subject to the normal budget process.
 - h. The County will fund 1/6th of the adopted budget on October 1st and 1/12th on the next 10 months form November through August.
6. This agreement shall be governed by, construed, and enforced in accordance with the laws of the State of Florida.

IN WITNESS WHEREOF, the parties hereto have set their hands this ____ day of _____, 2003.

LEON COUNTY, FLORIDA

BY: _____
Jane Sauls, Chairman
Board of County Commissioners

CLERK OF THE CIRCUIT COURT

BY: _____
Bob Inzer
Clerk of the Circuit Court

Approved as to Form:

BY: _____
Herbert W.A. Tiele, Esq., County Attorney